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To: District Clerks/Business Managers, District Superintendents
From: Nicole Thuotte, School Finance Specialist
School Finance Division
Date: March 15, 2013
Subject: Application for Qualified Zone Academy Bond (QZAB) Allocation

Background Information on Qualified Zone Academy Bonds (QZABs)

The American Taxpayer Relief Act of 2012 extended authority for Qualified Zone Academy Bonds (QZABs), a type of tax credit bond first authorized in 1997. QZABs are bonds the Federal Government subsidizes by allowing bondholders to receive tax credits that are approximately equal to the interest that would typically be paid to the holder of taxable bonds. As a result, issuers are generally responsible for repayment of just the principal only.

States and LEAs have considerable flexibility in the use of QZABs. They may be used for rehabilitating or repairing school facilities, purchasing equipment, developing curricula, and training school personnel, but not for new construction. To meet QZAB eligibility criteria, a public school must be located in either an Empowerment Zone or an Enterprise Community or have at least 35 percent of its students eligible for free or reduced-price lunch under the Federal lunch program (National School Lunch Act). The school must also have an education program designed in cooperation with a business; receive a private contribution (which may be in-kind), the net present value of which is not less than 10 percent of the proceeds of the bond; and have an education plan that is approved by its LEA; and its students must be subject to the same standards and assessments as other students in the LEA.

Application Process

The application period for QZABs is now open. The Montana Office of Public Instruction (OPI) has \$2,358,000 in QZAB authority to allocate to Montana school districts. Please note that an approved QZAB request does not result in any payment from the OPI to an applicant school district. An approved allocation request allows a school district to designate a future bond issuance as a QZAB, which allows the school district to benefit from the reduced interest costs.

The OPI has selected criteria that we believe are most likely to result in the successful sale of QZABs. Priority for application approval will be applied in the order shown below.

1. District has available debt capacity to support requested QZAB allocation request
2. District has already received voter approval to issue bonds, and would like to designate those bonds as QZABs.
3. District intends to issue without the need for voter approval (must indicate this on application and describe how the debt obligation will be funded).
4. Districts with the earliest election dates indicated on the application.

The application is enclosed with this letter. If interested, please complete the application and submit to the OPI. Please read the application carefully to take note of specific requirements of the program.

If you have any questions regarding this program, please contact me at (406)-444-4524, or by e-mail at nthuotte@mt.gov.